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N.Z. Trade to Underpin Currency, May Fan Inflation, Bollard Says
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By Tracy Withers

April 12 (Bloomberg) -- New Zealand's economy will get a boost from higher farm export prices that will underpin the nation's currency and may feed inflation expectations which the central bank would need to counter, Reserve Bank Governor Alan Bollard said.

"If households and firms use the income boost from higher commodity prices and exchange rates to bring forward consumption and investment, or increase borrowing, then pressure on resources in New Zealand would lead to more inflationary pressure," Bollard told a farmers group in Ashburton on the South Island yesterday. "Monetary policy would need to counteract any rise in inflation expectations."

New Zealand's dollar rose after the central bank today released a statement on Bollard's comments. He lowered the official cash rate to 2.5 percent last month to bolster confidence after the nation's deadliest earthquake in 80 years struck the southern city of Christchurch on Feb. 22.

New Zealand's currency rose to 66.20 yen as of 9:07 a.m. in Sydney from 65.97 yen in New York yesterday. It advanced to 78.24 U.S. cents from 77.98 cents yesterday, when it fell 0.4 percent.

The value of New Zealand's commodity exports gained for a seventh month to a record in March, according to an index published by ANZ National Bank Ltd. on April 4.

New Zealand's terms of trade, which measures the amount of imports New Zealand can buy from a fixed quantity of exports, rose to a 36-year high in the fourth quarter as milk, lumber and meat prices surged.

N.Z. Dollar

"The central bank expects the higher terms of trade to continue to be reflected in the exchange rate, as it is currently," Bollard's statement said today.

The so-called kiwi dollar gained 9.7 percent against the U.S. dollar the past 12 months and reached a five-month high of 78.48 U.S. cents yesterday.

"The terms of trade are at a 30- or 40-year high and the central bank is starting to recognize this," said Craig Ebert, senior markets economist at Bank of New Zealand Ltd. in Wellington. "They are perhaps not as comfortable about the inflation pressure that may come from it."

Bollard said a stronger currency will deliver the benefits of the rising terms of trade to the community through more wealth and cheaper imports.

"There is increasing tolerance for a strong New Zealand dollar," Ebert said. "They seem to be saying 'if the terms of trade are that strong and are that threatening on the inflation front we will be tolerant of the currency remaining strong.'"

Ten of 14 economists surveyed by Bloomberg News last month expected Bollard will keep borrowing costs unchanged until 2012. Four forecast a rate rise in the fourth quarter.

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--With assistance from Candice Zachariahs in Sydney. Editors:
Brendan Murray, Garfield Reynolds

To contact the reporter on this story:
Tracy Withers in Wellington at +64-4-498-2214 or
twithers@bloomberg.net.

To contact the editor responsible for this story:
Stephanie Phang at +65-6499-2617 or sphang@bloomberg.net